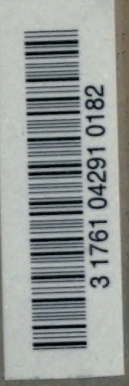
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Municipal Ownership of Public Utilities

By PROFESSOR JAMES MAVOR

OF THE UNIVERSITY OF TORONTO

A paper read at the joint meeting of the Michigan Political Science Association and the League of Michigan Municipalities, held at Ann Arbor, Mich., February 11-12, 1904

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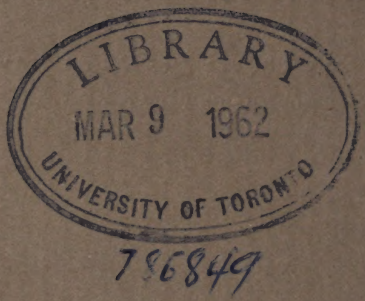

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MUNICIPAL OWNERSHIP OF PUBLIC UTILITIES

PROFESSOR JAMES MAVOR, OF THE UNIVERSITY OF TORONTO.

Any concrete case of projected municipal ownership may be looked at from three different points of view at least.

We may look at it from the point of view of *politics,* from which may be estimated the effect of the project upon the interests of political parties, and also the effect of it upon the political development of the city or State. Or we may look at it from the *economic* point of view, from which may be estimated the extent to which the projected ownership would be an economic advantage or disadvantage, in brief, how much it would cost the city, and how much the city would get for it in tangible and in intangible returns. Or we might look at it from a point of view which is neither specifically political nor specifically economical, but which may be described as being *sentimental* or *impulsive,* from which point of view it might be decided to support a project of municipal ownership, on the ground that the public utility which it was proposed to own had been exercised by, for example, an alien company, which had rendered what its critics regarded as an indifferent service, and extorted an excessive amount of payment for it. The question as to whether or not it would remunerate the city to render the service on its own account, from such a point of view, is not important. The view is that the service must be taken out of the hands of the company, even if the transaction should result in a pecuniary loss. This point of

view is one with which any of us might on occasion sympathize, but one cannot discuss it apart from a concrete case, and one can apply to it no principle excepting the general one, that it is usually unwise for a community to allow itself to be stampeded.

There thus remain the two first mentioned points of view—the political and the economic.

A. From the political point of view there is the consideration that any extension of the public authority involves the diminution of private freedom, and therefore of individual initiative. The vast agricultural and industrial development of the United States has been accomplished practically wholly by spontaneous individual, or by spontaneous corporate action.

The compulsory powers of Federal, State or municipal authority have rarely been exercised in the industrial field, and when they have been exercised, it has been attempted rather to regulate than to organize. There is much to be said for the argument that safety lies that way.

There are undeniable dangers in the unrestricted pursuit of private gain. This unrestricted pursuit becomes apparently more dangerous when it is accomplished by means of associations of persons, formed for the purpose of securing larger aggregate gains by spontaneous corporate action than could be obtained by the members of the group individually. This effective corporate action is alleged to imply the exploitation of individuals, and through that the monopolization of natural resources.

Yet legislation against combinations, whether of labor or of capital, has usually been ineffectual. Where it has appeared to be effectual it has often really had the result of lulling the people to sleep, while exploitation goes on more actively than before.

Political and social forces, unimpeded by legislation, may probably be counted upon to prevent undue exploita-

tion of private persons, and to prevent it more effectually than legislation specially devised for the purpose.

All combinations, compulsory or spontaneous, have to experience, sooner or later, indisputable limitations not imposed by legislative enactment, but nevertheless quite irresistable. Again and again combinations have met their *debacle* from the neglected element.

From the political point of view also, there are the serious considerations which are excited by the unfortunate fact, that municipal administration is inextricably intermingled with party politics, State and Federal, with the result of gross abuse of the powers of patronage and, in certain notorious cases, the more or less wholesale robbery of the people for the purpose of assisting a particular political party to get or retain power. The additional amount of patronage which municipal ownership would entail must necessarily increase the dangers from these sources, and the additional amount which would require to be borrowed and which would require to be raised by taxation and expended, would afford additional possibilities for the exercise of the nefarious trade of the "boodler."

It seems no reasonable answer to fears of this kind that the increased responsibilities would bring increased virtue and conscientiousness. That is a hypothesis which seems to be contradicted by facts and experience.

B. From the economic point of view, the following considerations may be suggested:

1. The adoption of municipal ownership causes, for so much as it amounts to, an increase in the public finances. It produces an increase of the area of governmental or compulsory finance, and correspondingly diminishes the area of private finance. In the event of the ownership being accompanied by net pecuniary loss, that loss will require to be met by taxation, that is, by a compulsory contribution to the public powers from the

private pocket. Moreover, in diminishing, as it must, the area of possible action by private initiative, as indicated above, it tends to destroy private initiative and to produce a state of the public mind in which the community is regarded as a universal provider. This state of mind is up to a certain point inevitable in countries where the accumulation of private capital proceeds slowly, and where enterprises that seem indispensable to municipal progress are undertaken by compulsory action, because private initiative does not exist on an adequate scale; but it is a dangerous state of mind to cultivate. It tends almost inevitably toward petty political chicanery, and to the wholesale purchase of constituencies by the party in power. It is not realized that every draft upon the public purse is sooner or later a draft upon the private purse of the citizens. There are numerous instances of municipalities being urged by enthusiasts into undertakings which have been burdens to them, even although some benefits may have accrued. There are, for example, the case of Cincinnati and the Southern Railway, Baltimore and the Western Maryland, the small City of Wheeling and its railway bonds, and Philadelphia and its gas works. It was assumed that the enterprises were necessary. Private enterprise was at the time too feeble, and under pressure of enthusiasts the public found itself impelled to enter upon them. So also institutions which in well-established communities are supported by private endowment or subscription—as hospitals, refuges and the like —are in less well-established communities wholly or partially provided out of the tax revenue. There is a widespread illusion that the quickest and easiest, though in the long run it is the most expensive way, to have any improvement effected, is for the public authority to do it. This course appears to cost nobody anything.

The practice of drawing on the public authority for money and services, probably in the beginning necessary,

becomes a fixed passion, and the public purse comes to be looked upon as a pocket from which inexhaustible supplies are to be drawn.

The public authorities are approved by large sections of the community in proportion as they yield to their demands upon the public purse. Deputations wait upon the members of the municipal administrations who have charge of the finances, and demand subventions for this and that institution; for this and that monument; for this and that movement, and the like, and an administration is very unpopular which refuses to grant at least some of these demands.

2. There is also the consideration that the exercise of the compulsory powers of the municipality stultifies private initiative, and thus tends to diminish the total of production?

Under a system of complete municipal Socialism, the distribution of wealth might conceivably approach equality, but would there be an increasing quantity of goods to distribute, in the absence of spontaneous organization of production?

3. The area of indisputably advantageous municipal ownership is comparatively small, it may, indeed, perhaps be regarded as confined to the ownership of those utilities which make directly for the public health, that is to say, for those utilities which are directly hygienic in their character, such for example, as streets of adequate width and proper paving, parks, sewage, collection of rubbish, and perhaps water supply. After these services are performed, then we may regard the extension of municipal activities as coming fairly within the field of discussion, but not till then.

In England, for example, the central authority, in this case the Local Government Board, prevents the embarkation upon any scheme by a municipality which has not provided the rudimentary utilities. For cities in the

United States or in Canada to embark in expensive scientific enterprises, such as electric lighting, while the streets are unpaved or badly paved,[1] while so-called grade crossings endanger life,[2] and while the streets and alley-ways are the breeding-places of disease,[3] while the sewage system is defective[4] or where the water supply is inadequate,[5] seems, on the face of it, a futile proceeding.

New municipalities are anxious to emulate rapidly the older cities, where the slowly accumulated results of centuries of labor constitutes an inheritance which can only be rivaled at immense cost to the generation that attempts the rivalry.

4. While many of the criticisms which may be urged against the extension of municipal activity into the industrial field, apply with equal force to municipal activity in Europe as well as in America, there are certain noticeable differences in conditions which must be taken into account. On the continent of Europe the Central Government exercises a very stringent (perhaps too stringent) control over the municipalities. During the eighteenth and nineteenth centuries, local self-government was seriously diminished, in France especially in the eighteenth century, and in Germany in the nineteenth; in Great Britain local self-government was invaded in the nineteenth century, but later has been to some extent reestablished. Thus, on the Continent, the municipality finds its policy largely prescribed for it. In Great Britain the municipal government is in very many cities in the hands of the same persons who constitute the boards of directors of companies, or who are otherwise in the daily habit of transacting business on a large scale. It is therefore

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[1]As in Chicago and St. Louis.
[2]As in many Eastern cities.
[3]As in Chicago.
[4]As in Baltimore.
[5]As in Cincinnati.

not unreasonable to expect them to manage the city finances and the administration of the public utilities with the same skill and interest which they throw into their private affairs. If one glances at the names of members of the Town Councils of Glasgow or Birmingham, for example, one finds those of leading business men in both cities.

This is the reason that the people have been willing to entrust them with large enterprises. The tradition of personal honesty which for many years has attached itself to the councils of the larger cities, the definite exclusion of general party politics, the disinterested character of the members (except so far as public reputation is concerned—they are not paid as in the United States and Canada), and the practically complete absence of patronage (so far as the councillors are concerned) combine to make possible the extension of municipal activities into fields that could not without grave risks be occupied by municipalities, either in the United States or in Canada, under present conditions.

5. In the present state of municipal and company accounting it is impossible, and in any conceivable state of accounting, it would be difficult to make precise comparisons between the cost to the public of municipal and joint stock supply of public services.

It is therefore not surprising to have the most divergent inferences from the available data. We are driven to estimate the probabilities rather than the actual state of the case.

(a.) If a municipality is in a position to borrow money at a lower rate than a joint stock company, it is because its tangible property affords a relatively more ample security than the property of the joint stock company. The risk to the lender is less in one case than in the other; but the risk of the enterprise is the same. The borrower, in one case the joint stock company, is obliged

to pay in the interest payment for a risk which the property does not enable it to carry on its own account; in the other case, the municipality takes at least a part of the risk on its own shoulders. Its relatively ample property enables it to do so; but the difference between the interest paid by it and the interest that would be paid were the money to be borrowed by a joint stock company is not gain, it is an insurance premium on a risk taken by the municipality, and it should be dealt with as such[1].

Apart from the question whether the public authorities are entitled to embark on speculative enterprises with the funds of the public, there is to be considered the effect upon the borrowing powers of the municipalities, of incidental additions to their debts, caused by embarkation on public service enterprises.

If a municipality borrows even for productive purposes large sums every year or two, its securities are apt to clog the market, and however high the city may stand financially, it may be difficult on occasion to negotiate its securities. Even national governments find these difficulties at times. A distributed load is generally preferred to a concentrated one. The equilibrium is more stable.

The presumption is that the more a city borrows in proportion to the total taxable value of the property of the citizens, the higher rates, other things being equal, will the city have to pay ultimately on the whole of its debt.

If loans are contracted with specific liens upon particular productive enterprises, they will be effected at a higher rate of interest than would be the case otherwise; because the margin of value for risk is less.

So far as interest on borrowed capital is concerned,

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[1] The question of risk has been fully discussed by Major Darwin in his remarkable book on *Municipal Trading*.

it is thus not clear that the municipality has any advantage over the privately organized joint stock company.

(b.) The management by municipalities of departments of public service, if it is efficient, is not likely to cost less, and is rather likely to cost more than a similar service otherwise rendered.

In most municipal enterprises, even perhaps in the longest established and best of them, there is a disposition on the one hand to pay relatively high wages to the manual laborers and relatively low salaries to the managers. The results are apt to be inefficient management and excess in the number of employees; the high wages and exceptional conditions of employment attracting many who would other wise seek employment elsewhere.

The municipal enterprise thus becomes saddled with costs for service to which joint stock management is not open.

Inquiry into municipal enterprises has in every case confirmed the general inference that municipal management is more expensive than private. The higher wages offered by advocates of municipal ownership must be represented by higher cost to the tax payers.

6. I have hitherto considered municipal ownership and operation of public services without discriminating between them.

There are many cases in which municipal ownership with private operation is preferable to any other form. Nevertheless many of the considerations which apply to municipal operation apply also to municipal ownership. The political features are apt to be alike in both cases.

Some of the financial features are also alike, but legal conditions may be such as to make ownership by the municipality or the State a great advantage in preventing disputes as to the use of streets.

Ownership, however, implies responsibility. If we have the ownership vested in one body and the executive

in another, we have at least one check upon the actions of either. If ownership and executive are combined, and still more, if we add to these functions that of operation, we have no check excepting the indefinite and spasmodic check of public opinion, and the unseen though irresistible economic forces which sometimes engulf us before we are aware.

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